**Interview with real estate developer Jeremy**

interviewer 1 0:01

Alright, we are recording now.

interviewee 0:03

Ok.

interviewer 1 0:08

Could you just tell us a little bit about like your background and experience with like energy performance and buildings? Sure.

interviewee 0:25

My backgrounds professionally, After undergrad 10 years ago, I went directly into working for a real estate investment trust that primarily owned, operated managed commercial, real estate in Manhattan. My job there was on the evaluation side, and then I worked very closely on the operating and capital expense side of real estate. So in a hypothetical situation where we acquired a building, or we're looking to acquire a building, or we're looking to provide a loan for somebody who had a building, we generated these reports, and assessments. And one of the reports, the capital plan would be a 10 year forward looking capital plans. And then the operating expense plan we'd also provide would be a one year annual plan. In those plans, there was expenses related to utilities, or the effects. So you'd have fuel consumption, electric consumption, water, natural gas, depending on what the building had, and it's in it's in the base. And then on the capital side, we generally want to build things that we could reposition and create value in. And more often than not, there be some version of energy savings plan that we definitely love. And that would come in the form of say, led retrofits are changing base building machinery to something more efficient. In some cases, we also saw buildings that already had them. So that's the background.

interviewer 1 1:53

Okay, great. So talking about that plan? Why? Why did you implement that energy savings plan?

interviewee 2:04

It was it was two-fold, I think. We were publicly traded company. So a lot of our focuses is to make shareholders happy. And there was a big push for sustainability efforts, I would say on a national level. And then separately, It was all about payback periods. So like if you were to do an LED retrofit, or if you're going to change some plumbing component, It would basically be based off the fact that you save, You know, money for the building, make more money, and then those returns would go back to the shareholders.

interviewer 1 2:43

Okay. What kind of retrofits do these plans have?

interviewee 2:50

say primarily, primarily, primarily LED related-stuff. And then, on a separate note, if the building had a BMS, which is a building management system, so kind of like a computer that controls to bonus, We would invest in certain points that would enable you to control more of the building. So like, I guess, I guess I could give you another example, Within the portfolio that we owned and acquired.

And basically, the company came in and gave us our consumption of electricity, And then also expected usage. And they worked in coordination with Con Edison in New York. And then when it was high demand periods, We basically shut down certain services to portfolio buildings still kept it operable, but minimize some of our electric usage. So let's say the lights every third light would be on instead of every light being on, Let's say, you had 10 elevator banks, instead of having all 10 elevator machines running, you'd have three elevator machine running, running at certain times at our peak energy consumption times and in exchange for utilizing this. And in exchange for seeing the projections, We would also get paid Big rebates from Con Edison, Okay, redistribute that electric consumption.

interviewer 1 4:29

So how did how did you control that? Was this done with building management system?

interviewee 4:33

Yeah, basically, the company is, they came in and they installed a, basically a monitor in the director of engineering office, where he can monitor all the buildings within the portfolio. It showed where the building was at consumption wise through electric and the expectation, kind of like a regression of the expectations through the day, We could plan accordingly. And then it also monitored and said, peak times that you could likely central turn off certain forms.

interviewer 1 5:04

Was that just on an overall consumption level? Or was this a more detailed model? For example, could you distinguish between different types?

interviewee 5:18

Oh, I think, I think it had both, I think I think it had both, depending on the builder. And depending on the data points that you have, So in some, you just get overall on your consumption. And then also, when you look at commercial buildings, there's a lot of variation in the way electric is tracked. So In some cases, if you're a commercial landlord, You just get one bill. Yeah, entire building, and then you build people back on a pro rata portion of the electric bill, based off of their space with the amount of square footage relative to tool, and in some cases, their sub meters. So basically, you get a electric meter readings, which we'd also installed as part of our capital plans, Okay, to build tenants back for those Yeah, like electric consumption. And then the third option was directly meter, which content, it would have direct meters to each different tenant, in which case, the landlord would only be responsible for the base building electric consumption. Okay. So like, lobby, elevators, Common Core doors, and building chains.

interviewer 1 6:28

So you talked about LED retrofit. Was that the most common retrofit in your plan?

interviewee 6:37

I would say so. That sub-meter installation, I don't know if that would be considered saving, or being economical with utilities.

interviewer 1 6:53

When you get your ConEd bill every month for your apartment, It's based off of your electrical usage in the apartment. And when the way they determine that is that there's these meters that kind of just look like a water meter that you might see, but just connected to your electric. And those meters can either be analog, in which case, they just run, and somebody has to go and check the meter, or there's electric meters, that kind of people can just have them throughout the building. And it can use data to just transfer that information directly to somebody so they can see an aggregated amount of data consumption for all the different units,

interviewer 1 7:35

How broken-down is the data that you have on your energy consumption?

interviewee 7:41

It shows basically shows you kilowatt hours that you utilized. And then it also shows you the price per kilowatt hour, I believe they break it down in the pricing scheme of things. They break it down into delivery expenses, and then actual service

interviewer 1 8:11

Is there anything that that you think could have been improved about those smart meters? Or sub-meters?

interviewee 8:18

I don't know, I think, in general, technology was trending to make them better and more data focused.

interviewer 1 8:25

So they provide a more detailed analysis?

interviewee 8:27

Sure. But I don't know if I'm necessarily the guy that would know that.

interviewer 1 8:33

Ok. How would they help you to make a better plan?

interviewee 8:41

Like in terms of what we do capital-wise?

interviewer 1 8:44

Yes, what data would you need to get a better return?

interviewee 8:52

We had baselines of understanding what kind of savings you could expect. So because we'd have those baselines, we knew payback periods. And so I guess, if we could get better data in terms of figuring out baselines for the amount of energy savings, you'd get out of using a certain type of LED light bulb or something that would be even more specific in terms of payback periods. So data would be useful.

interviewer 1 9:23

How about for different buildings, like building-specific data on what you can expect to save. Would that be helpful?

interviewee 9:45

I think so. But generally speaking, the contract, the contractors might provide that information of what their expectations are, but we ended up using our own bass lines of, of like previous projects that we had completed, and then the electrical consumption changes and how the payback period would generally be three years. So when we installed LED lights, It would cost us a certain amount of money for that initial installation. And then within three years, we get all our money back. And that was also at a time where led were more expensive than they are now.

interviewer 1 10:22

You mentioned a rule. Was the three years payback a rule?

interviewee 10:27

That was our rule of thumb, we would say within three years of purchasing LED light bulbs, we would get back the savings

interviewer 1 10:37

was that just for LED light bulbs? What I'm trying to understand is: did you not consider certain types of retrofits because they might take much longer?

interviewee 10:48

I think for sure. financial performance was that was really the focus. I think everybody also wants to be sustainable. Did quotes by the way. But the sustainability side is it's more of like an advertisement that people made. So like, I showed you that press release that they put out. For the super tall tower that's almost finished construction, There's a whole paragraph in there about a coal generation plant was just basically another another base building mechanical system that they put in to save on expenses related to heating or cooling the building.

But Yeah, so there's, that like information is used to fold, It's to either get money back to get the return on the investment. Or it's to make shareholders happy, or tenants happy. And the majority of the tenants that we had were financial services. So they couldn't care less about how efficient The building was. But If you had like, more you say, architects or somebody or you had like some sort of marketing company that tries to talk about their green footprint and how you can eat meat in their building, or things like that, those would be the types that we want

interviewer 1 12:25

Do you think this is changing? You talked about public companies having more responsibility.

interviewee 12:35

I think it's definitely changing to be more important. I think sustainability is definitely more important. And it's showing, because people are talking about it more, but it's it's a weird, It's a weird time. Because I guess, nationally, in the US, you have all the standards that were set in place during the Obama years basically being revealed by being repealed by Trump. He's like, openly in fights with California. There's like a push for cola generation and clean, clean energy is not clean now. And then counter that there's all the anti, that people that are pushing even harder. But I think I think it's definitely important. I think sustainability is more important than people even realize because we have finite amount of resources.

Don't even think about it from like the global warming perspective, that like things that we take for granted today are not going to be there for our kids. They might not even be there for us.

interviewer 1 13:55

Given the current situation, do you think people are willing to pay more for environmentally friendly buildings? So, can you sell that as a premium?

interviewee 14:07

I think so. But I also think that that environmentally friendly building concept kind of goes hand in hand with modern development. And modern development is more attractive for other reasons besides sustainability here. So to really disseminate the real rationale behind somebody choosing to be in a building that has energy efficiency savings, or because they just want to be in a building, that's no, it would be it will be tough to really quantify.

I would say, the other building that we had in the portfolio, which we They built before I work there was a old building that they modernized and may have LEED certified at 100 Park Avenue. And Lisa, lead is leading something something it's basically a designation for how efficient develop energy efficient your buildings, you'll see it on some buildings they have like there's a big lead. And then it's like LEED silver gold.

interviewer 1 15:12

And that gives you a premium on the building value?

interviewee 15:14

It's like it's like wearing a gold medal around. It's like certified environmentally friendly. Yeah, Bank of America Tower was, I think the first really high ones got like a platinum certification. Yeah. So it's, it's like something you can add on to your building, that might make your building more marketable. Watch out that people can talk about tenants, or be happy about a guy remember back in the day, there was one point in time where people would say that in certain buildings, the air coming out of the building was cleaner than the air going into the building. And then if you look at Bank of America Tower, there's there's, there's also people that complain about some of their sustainability efforts. So like they did, basically, the way we'll need works is that there's certain points that you get, So the more points you get qualifies you for those categories that you mentioned, silver, gold, platinum, whatever. And they did to high enough standard that they had bathrooms in there for the tenants that were no flush hurdles. And then you'd have tenants who would be like, that's great that we're being super sustainable. That same time. Gross, like we have no flush in our, in our ears. It smells terrible. Yeah. So like, there are some drawbacks. I think if you look at where we're at right now, we're in the first Passive House. Place in the US, or rental apartment, or just residential building, even building I don't even know Passive House in the US. And when I first got here, I think it was super frustrating to just use the sink, Because the sink, Basically spewed out. Like they had restrictions on the sink.

interviewer 1 17:36

I think that's important point that you're making. Thinking about it as a real estate developer owner, how do you get your tenants to help you? If you think about, for example, the new law that passed this year, by 2030 40% of emissions of building existing buildings need to be gone. How do you get your tenants to help you with?

interviewee 18:10

I don't know, if tenants would help you with that. I think tenants will probably just look at it as your responsibility. They pay the rent, and you figure

interviewer 1 18:19

All right, let me let me ask this differently: How do you do a retrofit, considering that you have tenants?

interviewee 18:26

Charge them more. So I know, it's kind of like a cyclical argument. All these things are more expenses, Right. And at the end, at the beginning of the day, If you're, like charging tenants for a certain amount, and there's certain step ups built in, you're generally charging them a premium off of off of a certain basis. And if that basis goes up, so will the overall amount even if the premium stays the same? Okay.

interviewer 1 19:01

Sure, you have to probably increase prices, In addition to that, you have to do some type of retrofit, which is going to impact them. Can you expand on that?

interviewee 19:19

So the company I was working for was a vertically integrated real estate investment trust. So they did construction, management operations. So on the management, side, Property Management, So it's basically inner interfacing with your tenants as much as possible. And I guess keeping them apprised of what you're doing, why you're doing it.

But generally, you can get things done. As long as you're, you're fairly straightforward and forthcoming about what the process entails and why you're doing it. And if it's like a mandated thing by the government, It's like, this is what it is, This is how it's going to go down.

interviewer 1 20:05

Without that government intervention, is it harder?

interviewee 20:08

well, I'm sure you can make a similar argument to the conversation we're having about reducing your carbon footprint, and being leaders in sustainability and working together to create a better world for your kids. And I don't know, I think I think there's many arguments in many ways you can rationalize behaviors that are good for the environment, Right.

interviewer 1 20:32

Other than the LED retrofits you mentioned, were there any other things you did to enhance the sustainability value?

interviewee 20:42

So I guess when it when it comes down to is his efficiency of the machines also, right? Like the big components of office building would be cooling and heating, and how you cool and heat the building. So modernizing certain equipment that might be inefficient in the way that it consumes fuel or electricity, That will be one way of retrofitting in a way. The water, I don't remember water charges ever really being a particularly big concern on the commercial side. I think it's it's all fairly reasonable. So there, there wasn't really too much of a driver on that front. I mean, the retrofits that use yet would also be wastes and make your bathroom nicer. Like, it'd be like a low flow toilets that are normal. And then there's also the sensor sensor six. So like, you wouldn't have sinks with bosses that you had to manually do it all be that. And then same thing with like soap and things like that. But but yet, The majority of it was installing LEDs changing out building equipment that might have been a inefficient or be honest, useful life, or both at the same time.

interviewer 1 22:04

You talked about the monitoring part for heating and cooling. Can you tell us more about them? How did you do that?

interviewee 22:21

Well, there's meters. There's also meters for that, I think. I think when it comes to monitoring, you know, how much oil you consume, because you know how much you have to get when you get replace, you get the bills for. So you can see like, what the expected efficiency would be for certain floors as good.

But like, depending on the on how advanced the building was, if you could have a building that was that had a ton of different data points on it and had like a very useful, like management system where you can monitor everything that would be very, very valuable. Because you could you could very specifically see what's normal, what's not normal? And What's using a lot of energy and what's not. And you could then kind of try and discern what the rationale behind it is. And if you discern, you could say rationalize a flyering or purchasing like some component that would make it more efficient. But The issue is, is that at this point in time, All these things are fairly expensive.

interviewer 1 23:30

Are you talking about the management system?

interviewee 23:32

remake the management system and the retrofits. But if you're working for a big company that has a ton of rental revenue that they can repurpose for, for capital projects, that's one thing, but if you're an owner of, let's say, I'm just some rich guy that owns one building, or 10s, how rich I am. But realistically speaking, a lot of people don't put that much money into their buildings. So like them to them, the expenses are substantial. My friend in Miami, He has a startup, I don't even know if you'd really call it a startup anymore. It's called ecosystems. And they basically do retrofits for apartment communities.

But on the primarily on the water side, so they install like low flow toilets and low flow like showerheads and stuff for your bathroom for tenants. And it's usually in areas where water expenses are more substantial. And It's a very profitable business. Okay.

interviewer 1 24:46

Is there a big difference between the Miami and New York scene as far as sustainability and real estate?

interviewee 24:58

My view in those two cities are very, very different. So, I didn't look at the same building types when I was in Miami is I didn't work out here. But I can tell you that. I would say people are probably more cognizant in New York about sustainability measures, unless they're the owners and the owners and it's literally revolves around savings and savings alone. And in Florida, Water and surcharges can be substantial. So people might focus more on the water into this assumption. Yeah, it's like to give me an idea in New York. I lived in a 550 square foot studio. My parents live in like a 5000 square foot apartment in Miami. ROI electric bills are the same. So is the here the focus would be electricity. And then conversely, I didn't pay anything for my water bill. But my parents paid their water bill.

interviewer 1 26:03

Did how much electricity costs impact the building's design?

interviewee 26:14

It’s about the consumption. Think about like this. In Florida, what temperature is it? It's like 100 degrees, right? What do people like in Florida? Air conditioning. So like, here, I used to turn off my I installed a nest thermostat to like, basically be on top of turning off my see when I was there and whatnot. Still more expensive here. Or it says expensive. Geographic considerations, as always kind of point out when it comes to choosy and what area of sustainability you choose. And there's also capital expenses associated with it, which is why people generally don't say, let me just have all these options and install everything I want.

interviewer 1 27:02

To the nest, do you feel like it helped you improve your energy savings?

interviewee 27:10

I think I think it brings awareness for the consumer. When I got the nest, I also signed up for con Edison's rush hour rewards program

interviewer 1 27:23

Can you give us more detail on that?

interviewee 27:36

Basically, the same concept of the big buildings about how when demand is super high, they pay you back and you basically agree that they can turn your AC down during peak times and you get rewarded for it.

interviewer 1 28:03

Why would ConEdison giving all those devices that for free?

interviewee 28:12

They make money from the savings. It's like basically, the expenses are passed on to the consumer, Right. And they only have a certain amount of capacity that they can provide electricity for. So if they don't have enough capacity to supply electricity that's going to outages, people not having electric action. So that controls that for them. And then And then also, it's the same thing we're talking about in terms of keeping a good exterior vibe. Select for consumers to know, hey, they care about energy efficiency. I mean, they should care about energy efficiency, but it's also like a PR move.

interviewer 1 29:05

I understand, thank you. I don't think we have any further questions. Do you have any questions for us or would you like to add anything else?

interviewee 29:10

No, thanks.

interviewer 1 29:20

Thank you for your time and your help. That was great.

interviewee 29:10

Thank you guys for your 30 minutes each also.

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